



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN
Chief Administrative Officer

November 26, 2003

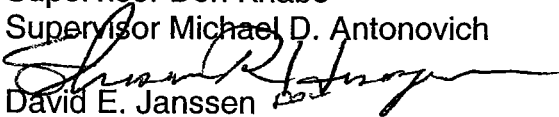
Board of Supervisors
GLORIA MOLINA
First District

YVONNE BRATHWAITE BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

To: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich
From: 
David E. Janssen
Chief Administrative Officer

STATE LEGISLATIVE UPDATE

State Budget Hearings

Yesterday, the Assembly and Senate Budget Committees met separately to hear from State Finance Director Donna Arduin and State Treasurer Phil Angelides regarding the Governor's deficit bond and spending cap proposals, the latter of which has not been made available in printed form. In advance of the hearings, the Administration released a list of proposed mid-year budget reductions totaling \$1.9 billion in the current year and \$1.9 billion in the budget year.

Ms. Arduin provided little additional information about the Governor's \$15 billion bond proposal other than to stress it was needed as backup for the almost \$13 billion in borrowing in the adopted budget that is under legal challenge. Both Democratic and Republican members pointed out that the \$15 billion borrowing would do nothing to solve the State's structural budget problem.

For the first time publicly, Ms. Arduin outlined the Administration plan to address the structural budget problem by tightening the existing State spending cap to include all general fund spending, including Proposition 98/education spending, and giving the Governor expanded budget authority to bring spending into line with revenues. For FY 2004-05, spending could not exceed revenues which, depending upon budget decisions in the current special session regarding mid-year reductions and the VLF backfill, could require a \$10 billion to \$15 billion reduction in projected general fund expenditures of \$85 billion. After FY 2005-06, expenditure growth would be

limited to population growth and inflation (rather than personal income growth as under the current limit) which would translate into expenditure growth of just 4 to 5 percent each year.

As the economy recovers and revenues increase, excess revenues would be deposited into a Stabilization, or "rainy day", Fund which, with a two-thirds vote of the Legislature, could be used to pay down the deficit bond sooner, provide rebates to taxpayers, cover the costs of an emergency declared by the Governor, or be transferred to the general fund when revenues fall below the spending limit projection. In the event spending commitments exceed revenue, the Governor would be required to call a special session of the Legislature and submit an expenditure reduction plan which would go into effect unless two-thirds of the Legislature approves an alternative plan within 30 days. Committee members expressed concern about the relationship between the spending cap and the Proposition 98 guarantee for public schools since enrollment growth is likely to exceed the spending cap growth. Enrollment-related increases would "crowd out" available spending for other programs. Similarly, growth in case loads for entitlement programs in the health and human services areas would have the same result.

Following the Administration's testimony, State Treasurer Phil Angelides expressed his concerns that the Administration's deficit bond doesn't solve the deficit and has an enormous future cost. According to the Treasurer, a \$15.57 billion bond with a 30-year maturity would end up costing almost \$35 billion or \$3,042 per household. Because of the hefty price tag for future generations, and the potentially negative impact on future capital outlay projects, such as parks, school construction and transportation, he advised legislators to whittle down the amount and duration of the Administration's proposed deficit bond and told them that a tax increase should be part of any plan to properly balance the budget.

As noted earlier, the Administration released a list of proposed mid-year budget reductions. A copy is attached. Most of the \$1.9 billion in current-year budget reductions would not directly impact County revenues but would affect programs administered by the County and cause reductions in services or benefits to program recipients. Some of the cuts include capping enrollments in various health and human services programs (including Health Families) at the January 1, 2004 caseload level, a 10 percent Medi-Cal provider rate reduction, a 5 percent grant reduction for CalWORKs recipients, elimination of the Transitional Food Stamp Benefits Program and the In-Home Supportive Services Residual Program.

Of particular interest to the County and local governments, generally, is the fact that the cut list includes \$475 million in VLF backfill for the current year that the Administration had said last week that they would pay, and which is included in SBx5 1 (Brulte), the backfill appropriation bill. They now are proposing to add that amount to the "gap loan" which will be repaid to local governments in 2006.

The committees asked very few questions about the proposed budget reductions but will consider them next week after the Thanksgiving holiday when budget hearings will resume.

Pursuit of Position on Legislation

SBx4 3 (Poochigian), introduced on November 19, 2003, is an urgency measure that would provide additional reforms to the workers' compensation system beyond what was enacted last session. The bill contains many of the reform elements the County supported last session, that were not enacted.

Specifically, SBx4 3 would 1) link the penalty for late payments to the actual delayed payment, 2) allow employer input into the selection of treating physicians, 3) promote use of objective medical findings, 4) provide that awards are more directly linked to the extent of injuries received on the job, and 5) expand the existing dispute resolution process between bargaining units and private employers to include public employers. A preliminary analysis of SBx4 3 by CAO Risk Management indicates that the measure would provide savings approaching \$35 million a year. **Because the bill is consistent with the County's workers' compensation reform priorities and would provide significant savings, our Sacramento Advocates will support SBx4 3.**

SBx4 3 is scheduled for a hearing before the Senate Labor and Industrial Relations Committee on Monday, December 1, 2003. There is currently no support or opposition registered although the bill is recognized to represent many of Governor Schwarzenegger's workers' compensation reform proposals.

We will continue to keep you advised.

DEJ:GK
MAL:JF:ib

Attachment

c: Executive Officer, Board of Supervisors
 County Counsel
 Local 660
 All Department Heads
 Legislative Strategist
 Coalition of County Unions
 California Contract Cities Association
 Independent Cities Association
 League of California Cities
 City Managers Associations
 Buddy Program Participants

**Current Year Reductions
In Special Session**
(Dollars in Millions)

	2003-04	Effect in 2004-05
Health and Human Services	\$440	\$1,163
Education	159	160
Resources/EPA/Capital Outlay	114	10
BTH/Local Government	1,031	417
Correctional/General Government	1	1
Control Section 4.10	150	150
Total	<u>\$1,895</u>	<u>\$1,901</u>

Current Year Reductions in Special Session

(Decision Dollars in thousands)

Department	Issue Title	2003-2004		2004-2005	
		General Fund	Other Funds	General Fund	Other Funds
2150 Department of Financial Institutions					
	<i>Loan the available balance in the Credit Union Fund to the General Fund.</i>	-1,800			
	The Credit Union Fund requires a minimum of a three-month reserve. The estimated 2003-04 reserve is \$2,674,000, which would allow the General Fund to borrow \$1.8 million.				
Total for: 2150		-\$1,800	\$0	\$0	\$0
2180 Department of Corporations					
	<i>Transfer additional fines and penalties to the General Fund</i>	-500		-1,000	
	The department believes current enforcement cases underway will generate settlement revenues that can be transferred to the General Fund.				
Total for: 2180		-\$500	\$0	-\$1,000	\$0
2240 Department of Housing and Community Development					
	<i>Disencumber Dormant Project Funds</i>	-5,000			
	Disencumber funds from project savings or from projects that did not go forward due to unforeseen changes in project feasibility.				
	<i>Close Low Occupancy Migrant Farmworker Housing Center</i>	-140		-280	
	This proposal would close the Blythe migrant farmworker housing center that has an 82 percent vacancy rate.				
Total for: 2240		-\$5,140	\$0	-\$280	\$0
2260 California Housing Finance Agency					
	<i>Revert Unused Funds to the General Fund</i>	-3,900			
	This proposal returns funds with expired commitments from the California Housing Downpayment Assistance Program to the General Fund. A similar return of \$18 million was included in the 2002 Budget Act. Bond funds are available for the program and are actively being applied for.				
Total for: 2260		-\$3,900	\$0	\$0	\$0
2310 Office of Real Estate Appraisers					
	<i>Loan Real Estate Appraiser Regulation Fund Assets to the General Fund</i>	-2,000			
	The Real Estate Appraiser Regulation Fund is expected to have a fund balance representing two years of revenue by the end of the current year. With revenues now expected to be strong throughout 2003-04, \$2 million can be loaned to the General Fund until 2006-07.				
Total for: 2310		-\$2,000	\$0	\$0	\$0
2660 California Department of Transportation					
	<i>Reimburse General Fund for Transportation Costs; Borrow New Transportation Resources</i>	-310,395	66,395	-403,239	-152,761
	Utilize cash management to recoup \$800 million in federal reimbursements to fund the following: <ul style="list-style-type: none"> * Repay the General Fund for debt service on current transportation GO bonds (\$406 million) * Loan \$200 million to the General Fund for up 3 years (this would require an emergency proclamation.) * Transfer income from the sale of property and rental income to the General Fund (\$108 million over 2 years). 				
	<i>Retain Gasoline Sales Tax Revenue in the General Fund</i>	-30,000	30,000		
	Retain all excess funds from higher than anticipated gasoline prices in the General Fund rather than transferring them to the Public Transportation Account.				
	<i>Shift General Fund Transportation Projects to Transportation Funds</i>	-189,000	189,000		
	Transfer the current year Traffic Congestion Relief Fund funds to the General Fund and repeal the specific statutory authority for the projects. This proposal requires the existing statutorily specified projects to secure other funding through either the State Transportation Improvement Program or local funding mechanisms.				

Department	Issue Title	2003-2004		2004-2005	
		General Fund	Other Funds	General Fund	Other Funds
Total for: 2660		-\$529,395	\$285,395	-\$403,239	-\$152,761
2740 Department of Motor Vehicles					
Eliminate General Fund Support		-600		-200	
Terminate the final phase of audit activities on the 2000 Vehicle License Fee Rebate Program and transfer the costs of DMV's Anatomical Donor Designation Program (\$60,000 General Fund annually) to the Motor Vehicle Account, beginning in 2003-04.					
Total for: 2740		-\$600	\$0	-\$200	\$0
2920 Technology, Trade, and Commerce Agency					
Capture Balances of Abolished Funds in General Fund		-6,600			
With the abolishment of the Agency effective January 1, 2003 the balances of several funds will transfer to the General Fund. All future loan repayments and any obligations will also become General Fund assets and liabilities.					
Total for: 2920		-\$6,600	\$0	\$0	\$0
3640 Wildlife Conservation Board					
Suspend the Natural Heritage Preservation Tax Credit Program		-8,700		-10,300	
The Natural Heritage Tax Credit Act of 2000 provides \$100 million in tax credits for donations of qualified lands and water for permanent preservation, and gives the donor a partial State tax credit (55 percent) based on the assessed value of the property. This proposal would suspend the award of new credits for 2003-04 and 2004-05, to avoid a revenue loss of \$8.7 million in 2003-04 and \$10.3 million in 2004-05.					
Total for: 3640		-\$8,700	\$0	-\$10,300	\$0
3860 Department of Water Resources					
Revert Unencumbered Funds for Prior Year Local Flood Control Projects		-105,000			
Since 1998-99, \$154.2 million General Fund has been expended to reimburse local governments for the State's share of federal flood control projects. The State's flood subvention obligation is estimated to be \$232.5 million through 2004-05. The 2003 Budget Act appropriated \$116 million for these obligations. Although these projects have been approved and local governments have fronted the costs, there is no requirement as to when the State must reimburse local governments for the State's share. This proposal would revert \$105 million that has not yet been committed.					
Total for: 3860		-\$105,000	\$0	\$0	\$0
4260 Department of Health Services					
Additional 10 Percent Medi-Cal Provider Rate Reduction		-151,800	-151,800	-443,000	-443,000
The 2003 Budget Act requires a 5 percent provider rate reduction. This proposal would implement an additional 10 percent rate reduction for specified Medi-Cal providers, including physicians, medical transportation, home health, and other medical providers and services.					
Rescind Wage Adjustment Rate Program		-46,000	-46,000	-2,544	-2,544
The Wage Adjustment Rate Program was established in 2000-01 to provide supplemental payments to long-term care facilities that have a collectively bargained agreement to increase salaries, wages, or benefits for caregivers. The 2003 Budget Act includes \$92 million (\$46 million General Fund) for this program. However, long-term care facilities have not yet submitted documentation and no funds have been dispersed for this program. Due to the significant General Fund budget shortfall, the Administration proposes to eliminate the program.					
Total for: 4260		-\$197,800	-\$197,800	-\$445,544	-\$445,544
4300 Department of Developmental Services					
Eliminate non-core Regional Center services		-69,000	-9,000	-181,000	-23,000
This proposal would prohibit Regional Centers from paying for camping expenses, such as camp fees or travel expenses associated with camp activities; social and recreational activities; and non-medical therapy, such as music therapy, art therapy, equestrian therapy, and respite services.					
Total for: 4300		-\$69,000	-\$9,000	-\$181,000	-\$23,000

Department	Issue Title	2003-2004		2004-2005	
		General Fund	Other Funds	General Fund	Other Funds
5175 Department of Child Support Services					
	Eliminate funding for new child support program as it will not generate savings as anticipated	-700	-1,200		
	The Medical Support Order Enhancement Initiative was intended to move children off of Medi-Cal and into private health plans held by non-custodial parents to achieve General Fund savings in Medi-Cal. It is now assumed that this project would result in minimal, and possibly no, savings because of higher than anticipated costs to implement the related automation enhancements. Therefore, the Initiative will not be implemented, and funds that were budgeted are now available in the current year.				
	Savings due to implementation delays for Child Support Collections Initiative	-1,245	-2,418		
	The Collections Enhancement Initiative was implemented to increase Child Support Collections through a series of program reforms. Due to implementation delays and late enactment of the budget, the Department estimates that it will only use half of the funding budgeted for the project in 2003-04.				
Total for: 5175		-\$1,945	-\$3,618	\$0	\$0
5180 Department of Social Services					
	Eliminate the California Veterans Cash Benefit Program	-1,354		-5,538	
	This program provides cash benefits at the same level as the State Supplementary Payment (SSP) benefits (the State funded portion of the SSI/SSP grant) to certain veterans of World War II who returned to the Republic of Philippines. This proposal would eliminate the program for General Fund savings of \$1.4 million in 2003-04 and \$5.5 million in 2004-05.				
	Eliminate In-Home Supportive Services Residual Program	-63,192		-322,172	
	This proposal would eliminate this State-only program, which provides certain services, such as heavy cleaning, transportation, non-medical personal care and respite services. Recipients of this program are not eligible for a similar federally subsidized program for several reasons, including the fact that they have relatives who provide this type of care.				
	Reduce CalWORKs Grants		-44,144		-176,579
	This proposal would reduce CalWORKs grants by 5 percent. This would generate federal Temporary Assistance to Needy Families (TANF) Block Grant savings, rather than General Fund savings, because the federal maintenance-of-effort (MOE) requirements for the CalWORKs program do not allow the State to reduce General Fund spending for CalWORKs below the MOE level. Federal fund savings resulting from this proposal could be used to offset increased program costs in 2004-05.				
	Transfer Maximum Amount of Federal Funds from CalWORKs to Achieve General Fund Savings	-41,100	41,100	-119,500	119,500
	This proposal would transfer \$41.1 million in federal Temporary Assistance for Needy Families (TANF) Block Grant funds to offset General Fund costs in the In-Home Supportive Services (IHSS) program in 2003-04. In addition, \$119.5 million in federal TANF funds can be transferred to offset General Fund costs in the IHSS program, the Foster Care program, the Child Welfare Services program, and in Department of Developmental Services programs in 2004-05.				
	Eliminate the Transitional Food Stamp Benefits Program	-1,338	-558	-3,808	-2,075
	Due to delays with reprogramming activities, the program has not been implemented yet. This proposal would eliminate the program. The program was established in 2003-04 to provide food stamp benefits for up to five months to households no longer eligible for CalWORKs cash assistance.				
	Repeal recent legislation that expanded eligibility for food stamps and loosened application requirements	-186	-218	-444	-328
	Pursuant to AB 231 (Steinberg) effective January 1, 2004, the value of a car owned by food stamp applicants will not affect their eligibility for food stamps. Additionally, food stamp applicants would no longer be required to have a face-to-face interview as part of the application process.				
	This proposal would repeal these statutory changes for General Fund savings of \$186,000 in 2003-04 and \$444,000 in 2004-05.				
	Eliminate Supportive Transitional Emancipation Program	-38		-338	
	This program provides financial support to emancipating foster youth up to age 21 if they are participating in an educational or training program. Due to the lack of county participation in this program since it became operative in January 2002, no funding was budgeted for the program in 2003-04. However, statute requires the State to fund this program if a county elects to participate. As a result, the State will incur costs to operate this optional statewide program in San Francisco County beginning in January 2004. This proposal would eliminate the program, as it has yet to be implemented.				
	The amount of savings is estimated at \$38,000 GF in 2003-04, for start-up and implementation costs, and \$338,000 GF in 2004-05.				

Department	Issue Title	2003-2004		2004-2005	
		General Fund	Other Funds	General Fund	Other Funds
	Increase Community Care Licensing fees to cover program costs	-1,013		-6,079	
	The Community Care Licensing Division licenses and monitors community care facilities for children and adults to ensure they meet established health and safety standards.				
	This proposal would increase annual licensing fees for Family Child Care Homes, Child Care Centers, and all children's residential, adult care, and senior care programs licensed by the Department of Social Services. The increased fees will be phased-in over a 3-year period in order to fully support the General Fund cost of the community care licensing program with fee revenue. Annual fees would increase in approximately equal increments over a 3-year period, beginning May 1, 2004.				
	Total for: 5180	-\$108,221	-\$3,820	-\$457,879	-\$59,482
5209	Health and Human Services -- Various Adjustments				
	Cap enrollments into various health and human service programs effective January 1, 2004.	-32,300		-44,500	
	This proposal would cap various health and human services programs at the January 1, 2004 estimated level of caseload. Waiting lists would be established; and as attrition occurs, new enrollments would be permitted up to the capped level.				
	Programs include the Healthy Families Program, regional centers, AIDS Drug Assistance Program, State Hospitals, rehabilitation programs, the Genetically Handicapped Persons Program, and the California Children's Services State-only program. In order to achieve savings in these programs, legislation must be enacted in the current year to include suspending the Lanterman Act, which provides an entitlement to services for the developmentally disabled.				
	Cap Enrollments into Various State-only Programs for Immigrants Effective January 1, 2004	-2,030		-33,616	
	This proposal would cap enrollments into various State-funded programs for immigrants at the January 1, 2004, caseload level. Waiting lists will be established; and as attrition occurs, new enrollments will be permitted up to the capped level.				
	Programs to be capped include: Medi-Cal Non-Emergency Services for Documented and Undocumented Immigrants, Healthy Families Program for Documented Immigrants, CalWORKs for Documented Immigrants, California Food Assistance Program, and Cash Assistance Program for Immigrants. Statutory changes must be enacted quickly to implement these enrollment caps in the current year.				
	Revert prior year savings and unspent current year funding	-28,482			
	Of the amounts appropriated in the prior and current year for the Emergency Medical Services Authority, Departments of Aging, Alcohol and Drug Programs, Health Services, Developmental Centers, Mental Health, Community Services and Development, Rehabilitation, and Child Support Services, and Managed Risk Medical Insurance Board, \$28.5 million is available for reversion. This includes \$18.9 million from state operations and \$9.6 million from local assistance.				
	Total for: 5209	-\$62,812	\$0	-\$78,116	\$0
6440	University of California				
	Land sale at UC Riverside	-55,000			
	UC has an agreement to sell land at UC Riverside for \$55.1 million. The UC Board of Regents has agreed to shift these monies to the State General Fund in January 2004, and issue lease-revenue bonds in a like amount to fund the construction of an Agricultural Genomics research facility at UC Riverside.				
	In return, the State will commit to future lease payments of approximately \$4.3 million a year for 25 years, commencing as early as 2008-09.				
	Labor Studies-- Eliminate funding effective 1/1/04	-2,000		-4,000	
	The Labor Institutes provide support at UC Berkely and UCLA for Multi-Campus Research Units for Labor Studies. This project has received approximately \$21 million since 2000-01. Specifically, \$6.0 million in 2000-01; \$5.5 million in 2001-02; \$5.5 million in 2002-03 and \$4.0 million in 2003-04.				
	Total for: 6440	-\$57,000	\$0	-\$4,000	\$0
6990	Other Higher Education				
	Unallocated Reduction-- University of California, California State University, Hastings College of the Law	-27,297		-70,793	
	University of California - Equivalent to a current-year reduction of \$18.4 million (0.6 percent), and a budget-year reduction of \$55.1 million (1.8 percent). Their 2003-04 General Fund budget is \$2.9 billion.				
	California State University - Equivalent to a current-year reduction of \$13.4 million (0.5 percent), and a budget-year reduction of \$26.9 million (1.1 percent). Their 2003-04 General Fund budget is \$2.5 billion.				
	Hastings College of the Law - Equivalent to a current-year reduction of \$302,000 (2.6 percent), and a budget-year reduction of \$603,000 (5.3 percent). Their 2003-04 General Fund budget is \$11.4 million.				

Department	Issue Title	2003-2004		2004-2005	
		General Fund	Other Funds	General Fund	Other Funds
	Eliminate outreach funding effective January 1, 2004	-24,662		-85,323	
	CSU currently receives \$52 million for General Fund supported outreach, and UC currently receives \$33.3 million.				
	Total for: 6990	-\$51,959	\$0	-\$156,116	\$0
7350 Department of Industrial Relations					
	Current Year Reduction to DIR	-808		-808	
	All 10 positions have been vacant since July 1, therefore the 2003-04 savings is equivalent to the annualized amount. Labor and Workforce Development Agency staff offered these position reductions. According to the Department, the reductions will result in increased response time for Cal-OSHA inspections and increased time spent on public works cases.				
	Total for: 7350	-\$808	\$0	-\$808	\$0
7980 California Student Aid Commission					
	Eliminate new APLE warrants effective January 1, 2004				
	The 2003 Budget Act authorizes CSAC to issue 7,700 Assumption Program of Loans for Education warrants in 2003-04. This action will result in the issuance of only 3,500 warrants, or 4,200 fewer than authorized in the Budget. The issuance of 4,200 fewer warrants will save the State approximately \$46.6 million over time.				
	These savings will not be realized in either current-year or budget-year, since the APLE warrants are generally not redeemed for at least four years, because the recipients (who are generally still in college when they receive their warrant) must teach for one full year before receiving their first loan assumption payment.				
	CY Cal Grant savings	-50,000			
	Current-year Cal Grant savings, per CSAC over estimates.				
	Total for: 7980	-\$50,000	\$0	\$0	\$0
9100 Tax Relief					
	Increased loan from local governments for the loss of vehicle license fees attributable to the suspension of the VLF offset.	-475,000			
	As part of the Budget Act agreement it was anticipated that local governments would lose \$825 million due to the implementation lag of the higher vehicle license fees. This loss was to be repaid from the General Fund in 2006-07. It is currently estimated that the loss of revenue to local governments from this lag will be \$1.3 billion, or \$475 million above expectations. Under this proposal, this additional \$475 million loss would be added to the amount to be repaid in 2006-07.				
	Total for: 9100	-\$475,000	\$0	\$0	\$0
9430 Apportionment-Motor Vehicle License Fees					
	Eliminate General Fund Backfill of International Registration Plan Trailer Vehicle License Fee loss	-5,931		-11,862	
	Numerous changes were made in 2000 to conform State weight fee statute to the International Registration Plan. These changes included the elimination of vehicle license fees for most trailers. Under current law, the General Fund is required to backfill local governments for a portion of this loss. This proposal would eliminate that backfill requirement.				
	Total for: 9430	-\$5,931	\$0	-\$11,862	\$0
9901 Various Departments					
	Additional General Fund reductions pursuant to Control Section 4.10 to be implemented in CY 2003-04	-150,000		-150,000	
	Total for: 9901	-\$150,000	\$0	-\$150,000	\$0
	Report Total	-\$1,894,111	\$71,157	-\$1,900,344	-\$680,787